

109TH CONGRESS
1ST SESSION

S. 2111

To amend the Internal Revenue Code of 1986 to provide a credit for small business employee training expenses, to increase the exclusion of capital gains from small business stocks, to extend expensing for small businesses, and for other purposes.

IN THE SENATE OF THE UNITED STATES

DECEMBER 15, 2005

Mr. BAYH introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide a credit for small business employee training expenses, to increase the exclusion of capital gains from small business stocks, to extend expensing for small businesses, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Small Business Growth
5 Initiative Act of 2005”.

1 **SEC. 2. CREDIT FOR EMPLOYEE TRAINING EXPENSES OF**
 2 **SMALL BUSINESSES.**

3 (a) IN GENERAL.—Subpart D of part IV of sub-
 4 chapter A of chapter 1 of the Internal Revenue Code of
 5 1986 (relating to business related credits) is amended by
 6 adding at the end the following new section:

7 **“SEC. 45N. SMALL BUSINESS EMPLOYEE TRAINING EX-**
 8 **PENSES.**

9 “(a) IN GENERAL.—

10 “(1) ALLOWANCE OF CREDIT.—For purposes of
 11 section 38, in the case of an eligible small business
 12 employer, the small business employee training cred-
 13 it determined under this section for the taxable year
 14 is an amount equal to so much of the qualified train-
 15 ing expenses paid or incurred by the eligible small
 16 business employer with respect to qualified employ-
 17 ees as exceeds the base amount.

18 “(2) BASE AMOUNT.—For purposes of para-
 19 graph (1)—

20 “(A) IN GENERAL.—The base amount is
 21 an amount equal to the average amount of
 22 qualified training expenses paid or incurred by
 23 the eligible small business employer with re-
 24 spect to all qualified employees for the 3 pre-
 25 ceding taxable years.

1 “(B) SPECIAL RULE FOR NEW BUSI-
2 NESSES.—

3 “(i) BUSINESSES WITH AT LEAST 1
4 TAXABLE YEAR.—In the case of an eligible
5 small business employer which has at least
6 1 full preceding taxable year but fewer
7 than 3 preceding taxable years, the base
8 amount shall be the amount of qualified
9 training expenses paid or incurred by such
10 employer with respect to all qualified em-
11 ployees during the preceding taxable year.

12 “(ii) START-UP YEAR.—In the case of
13 an eligible small business employer which
14 does not have any full preceding taxable
15 years, the base amount shall be zero.

16 “(b) LIMITATIONS.—

17 “(1) PER EMPLOYEE LIMITATION.—The
18 amount of the credit allowed under subsection (a)
19 for any taxable year with respect to any qualified
20 employee shall not exceed \$1,000 (\$500 in the case
21 of an eligible small business to which subsection
22 (a)(2)(B)(ii) applies).

23 “(2) NUMBER OF EMPLOYEES.—Not more than
24 5 qualified employees may be taken into account
25 under subsection (a) for any taxable year.

1 “(c) ELIGIBLE SMALL BUSINESS EMPLOYER.—

2 “(1) IN GENERAL.—The term ‘eligible small
3 business employer’ means, with respect to any cal-
4 endar year, an employer who employed an average of
5 at least 2 but not more than 100 employees on busi-
6 ness days during the preceding taxable year.

7 “(2) EXCEPTION.—Such term shall not include
8 any employer who is a physician or whose principal
9 business is providing legal, accounting, engineering,
10 architectural, or similar services.

11 “(d) QUALIFIED TRAINING EXPENSES.—For pur-
12 poses of this section, the term ‘qualified training expenses’
13 means expenses paid or incurred for the training of a
14 qualified employee to a person who is an eligible provider
15 of training services within the meaning of section 122 of
16 the Workforce Investment Act of 1998.

17 “(e) QUALIFIED EMPLOYEE.—For purposes of this
18 section, the term ‘qualified employee’ means an individual
19 who has been employed by the eligible small business em-
20 ployer on a full-time basis for at least 6 months and who
21 is not any of the following:

22 “(1) A highly compensated employee (within
23 the meaning of section 414(q)).

24 “(2) A physician or a veterinarian.

1 “(3) An individual participating in an appren-
 2 ticeship or a specialty trade skills development pro-
 3 gram associated with a specialty trade contractor as
 4 specified in subsection 238 of the North American
 5 Industry Classification System (as in effect on the
 6 date of the enactment of this section).”.

7 (b) CREDIT MADE PART OF GENERAL BUSINESS
 8 CREDIT.—Section 38(b) of the Internal Revenue Code of
 9 1986 is amended by striking “and” at the end of para-
 10 graph (25), by striking the period at the end of paragraph
 11 (26) and inserting “, plus”, and by adding at the end the
 12 following new paragraph:

13 “(27) the small business employee training
 14 credit determined under section 45N(a).”.

15 (c) CLERICAL AMENDMENT.—The table of sections
 16 for subpart D of part IV of subchapter A of chapter 1
 17 of the Internal Revenue Code of 1986 is amended by add-
 18 ing at the end the following new item:

“Sec. 45N. Small business employee training credit.”.

19 (d) EFFECTIVE DATE.—The amendments made by
 20 this section shall apply to expenditures incurred after De-
 21 cember 31, 2005.

22 **SEC. 3. INCREASED EXCLUSION AND OTHER MODIFICA-**
 23 **TIONS APPLICABLE TO QUALIFIED SMALL**
 24 **BUSINESS STOCK.**

25 (a) INCREASED EXCLUSION.—

1 (1) IN GENERAL.—Subsection (a) of section
 2 1202 of the Internal Revenue Code of 1986 (relating
 3 to 50-percent exclusion for gain from certain small
 4 business stock) is amended to read as follows:

5 “(a) EXCLUSION.—Gross income shall not include
 6 any gain from the sale or exchange of qualified small busi-
 7 ness stock held for more than 3 years.”.

8 (2) CONFORMING AMENDMENTS.—

9 (A) Subparagraph (A) of section 1(h)(4) of
 10 such Code is amended to read as follows:

11 “(A) collectibles gain, over”.

12 (B) Section 1(h) of such Code is amended
 13 by striking paragraph (7).

14 (C)(i) Section 1(h) of such Code is amend-
 15 ed by redesignating paragraphs (8), (9), (10),
 16 (11), (12), and (13) as paragraphs (7), (8), (9),
 17 (10), (11), and (12), respectively.

18 (ii) Sections 163(d)(4)(B), 854(b)(5),
 19 857(c)(2)(D) of such Code are each amended
 20 by striking “section 1(h)(11)(B)” and inserting
 21 “section 1(h)(10)(B)”.

22 (iii) The following sections in 301(f)(4) of
 23 such Code are each amended by striking “sec-
 24 tion 1(h)(11)” and inserting “section
 25 1(h)(10)”:

1 (I) Section 301(f)(4).

2 (II) Section 306(a)(1)(D).

3 (III) Section 584(c).

4 (IV) Section 702(a)(5).

5 (V) Section 854(a).

6 (VI) Section 854(b)(2).

7 (iv) The heading of section 857(c)(2) is
8 amended by striking “1(h)(11)” and inserting
9 “1(h)(10)”.

10 (D) Subsection (c) of section 1202 of such
11 Code is amended by adding at the end the fol-
12 lowing new paragraph:

13 “(4) STOCK HELD AMONG MEMBERS OF CON-
14 TROLLED GROUP NOT ELIGIBLE.—Stock of a mem-
15 ber of a parent-subsidiary controlled group (as de-
16 fined in subsection (d)(3)) shall not be treated as
17 qualified small business stock while held by another
18 member of such group.”.

19 (E) Subsections (g)(2)(A) and (j)(1)(A) of
20 section 1202 of such Code are each amended by
21 striking “5 years” and inserting “3 years”.

22 (F) The heading for section 1202 of such
23 Code is amended by striking “**PARTIAL**”.

24 (G) The table of sections for part I of sub-
25 chapter P of chapter 1 of such Code is amended

1 by striking “Partial exclusion” in the item re-
 2 lating to section 1202 and inserting “Exclu-
 3 sion”.

4 (b) REPEAL OF MINIMUM TAX PREFERENCE.—

5 (1) IN GENERAL.—Subsection (a) of section 57
 6 of the Internal Revenue Code of 1986 (relating to
 7 items of tax preference) is amended by striking
 8 paragraph (7).

9 (2) TECHNICAL AMENDMENT.—Subclause (II)
 10 of section 53(d)(1)(B)(ii) of such Code is amended
 11 by striking “, (5), and (7)” and inserting “and (5)”.

12 (c) REPEAL OF PER-ISSUER LIMITATION.—Section
 13 1202(b) of the Internal Revenue Code of 1986 (relating
 14 to per-issuer limitations on taxpayer’s eligible gain) is re-
 15 pealed.

16 (d) OTHER MODIFICATIONS.—

17 (1) REPEAL OF WORKING CAPITAL LIMITA-
 18 TION.—Section 1202(e)(6) of the Internal Revenue
 19 Code of 1986 (relating to working capital) is amend-
 20 ed—

21 (A) in subparagraph (B), by striking “2
 22 years” and inserting “5 years”; and

23 (B) by striking the last sentence.

24 (2) EXCEPTION FROM REDEMPTION RULES
 25 WHERE BUSINESS PURPOSE.—Section 1202(c)(3) of

1 such Code (relating to certain purchases by corpora-
 2 tion of its own stock) is amended by adding at the
 3 end the following new subparagraph:

4 “(D) WAIVER WHERE BUSINESS PUR-
 5 POSE.—A purchase of stock by the issuing cor-
 6 poration shall be disregarded for purposes of
 7 subparagraph (B) if the issuing corporation es-
 8 tablishes that there was a business purpose for
 9 such purchase and one of the principal purposes
 10 of the purchase was not to avoid the limitations
 11 of this section.”.

12 (e) QUALIFIED TRADE OR BUSINESS.—Section
 13 1202(e)(3) of the Internal Revenue Code of 1986 (defin-
 14 ing qualified trade or business) is amended by inserting
 15 “and” at the end of subparagraph (C), by striking “, and”
 16 at the end of subparagraph (D) and inserting a period,
 17 and by striking subparagraph (E).

18 (f) EFFECTIVE DATES.—The amendments made by
 19 this section apply to stock issued after December 31,
 20 2005.

21 **SEC. 4. EXTENSION OF INCREASED EXPENSING FOR SMALL**
 22 **BUSINESS.**

23 Subsections (b), (c), and (d) of section 179 are each
 24 amended by striking “2008” each place it appears and
 25 inserting “2011”.

1 **SEC. 5. SBIR AND STTR PROGRAM EXPENDITURES.**

2 (a) SBIR PROGRAM EXPENDITURES.—Section
3 9(f)(1) of the Small Business Act (15 U.S.C. 638(f)(1))
4 is amended by striking subparagraphs (A) through (C)
5 and inserting the following:

6 “(A) not less than 2.5 percent of such
7 budget in fiscal year 2006;

8 “(B) not less than 3.0 percent of such
9 budget in fiscal year 2007;

10 “(C) not less than 3.5 percent of such
11 budget in fiscal year 2008;

12 “(D) not less than 4.0 percent of such
13 budget in fiscal year 2009;

14 “(E) not less than 4.5 percent of such
15 budget in fiscal year 2010; and

16 “(F) not less than 5.0 percent of such
17 budget in fiscal year 2011 and each fiscal year
18 thereafter.”.

19 (b) STTR PROGRAM EXPENDITURES.—Section
20 9(n)(1)(B) of the Small Business Act (15 U.S.C.
21 638(n)(1)(B)) is amended by striking clauses (i) and (ii)
22 and inserting the following:

23 “(i) not less than 0.3 percent in fiscal
24 year 2006;

25 “(ii) not less than 0.36 percent in fis-
26 cal year 2007;

1 “(iii) not less than 0.42 percent in fis-
2 cal year 2008;

3 “(iv) not less than 0.48 percent in fis-
4 cal year 2009;

5 “(v) not less than 0.54 percent in fis-
6 cal year 2010;

7 “(vi) not less than 0.6 percent in fis-
8 cal year 2011 and each fiscal year there-
9 after.”.

10 **SEC. 6. EXPANSION OF CREDIT FOR SMALL EMPLOYER**
11 **PENSION PLAN STARTUP COSTS.**

12 (a) IN GENERAL.—Paragraph (1) of section 45E(b)
13 of the Internal Revenue Code of 1986 is amended by strik-
14 ing “\$500” and inserting “\$1,000”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 this section shall apply to taxable years beginning after
17 December 31, 2005.

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